

PROGRAM IN SUPPORT OF THE FINANCIAL SECTOR IN EL SALVADOR

(ES-0115)
(TC-98-08-27-3)

EXECUTIVE SUMMARY

BENEFICIARIES: Financial System Superintendency (SSF)
Deposit Insurance Institution (IGD)
Securities Exchange Superintendency (SV)
Pension Superintendency (SP)
National Council of Judges (CNJ) through the
School for Judicial Training (ECJ)

BORROWER: Republic of El Salvador

EXECUTING AGENCY: Presidential Commission for Modernization of the
Public Sector (CPMSP), with the participation of the
beneficiary entities.

AMOUNT AND SOURCE: MIF: (Facility 1,
nonreimbursable) US\$2,962,200
IDB TC loan (OC): US\$3,802,000
Local counterpart: US\$3,178,300
Total: US\$9,942,500

**FINANCIAL TERMS
AND CONDITIONS
OF THE LOAN:** Amortization period: 20 years
Interest rate: Variable
Inspection and supervision: 1.00%
Credit fee: 0.75%
Currency: U.S. dollars (Single
Currency Facility)

TENTATIVE DATES: Loan Committee: November 1998
Board/Donors Committee: December 1998

OBJECTIVES: The general objective of the program is to contribute
to the stability and solvency of El Salvador's
financial system by strengthening the supervisory
agencies for the financial sector. The specific
objectives are to: (i) strengthen the technical
capacity of agencies responsible for supervising the
financial sector; (ii) introduce modern management
tools within these institutions; and (iii) build a
basis for cooperation and coordination between these
agencies to maximize the effectiveness of financial
supervision in El Salvador.

DESCRIPTION: The program consists of a series of components to
improve the capacity of the participating agencies
individually, while at the same time encouraging and
facilitating coordination, cooperation, and the
smooth flow of information between them.

Components financed with MIF resources:
(i) implementation of a planning and monitoring
system (US\$290,000); (ii) human resource management
(US\$543,500); (iii) strengthening management of the
technological platform (US\$360,000); (iv) intro-
duction of international accounting principles in the

financial sector (US\$305,000); (v) training program for judges and commercial arbitrators (US\$230,000); (vi) establishment of the Deposit Insurance Institution (US\$405,000); (vii) strengthening of the Financial System Superintendency (US\$1,845,000); (viii) strengthening of the Securities Exchange Superintendency (US\$405,000); (ix) strengthening of the Pension Superintendency (US\$465,000).

Components financed with IDB resources (US\$3,802,000): Component (x) would strengthen technology management, through the development of a short- and medium-term technology strategy and investment plan for the three superintendencies. The resources supplied by the IDB for component (x) would be used to carry out the investment plan for the modernization of technological resources.

IMPACT ON POVERTY: Not applicable.

PROCUREMENT THRESHOLDS: Following the approach taken for other projects in El Salvador, international competitive bidding will be mandatory for the procurement of goods and services in amounts above US\$350,000, and consulting services in amounts above US\$200,000.

The detailed program of goods and services contracting will be defined in the operating plans. For each operating plan, the corresponding procurement plan will require clearance by the Bank.

ENVIRONMENTAL AND SOCIAL REVIEW: This project will not have an impact on the environment.

RISKS: Effective cooperation between the program executing agencies will be necessary if the program is to be successfully executed. Problems with the decision-making process among Superintendents could create serious obstacles to proper program execution. Both the Superintendents and the President of the Central Reserve Bank of El Salvador (BCR) have expressed support for the program. Furthermore, the Committee of Superintendents (CS) has already been working effectively in its risk assessment capacity. Through the present program, the CS's work program will be expanded. Establishment of the Technical Unit (UT) and support from the CPMSP will also facilitate the decision process by providing operational support and technical assistance to the CS.

Budget restrictions of one or several of the coexecuting agencies may cause delays in program execution. As mentioned earlier, this program has the full support of Salvadoran authorities. The application of some of the measures may result in savings that could be used to defray the counterpart costs.

In the systems area, it is essential to avoid the excessive procurement of hardware or software that has not been planned as part of a comprehensive information systems strategy. The annual operating plans will provide the main tool for minimizing this risk, which will make the Bank's technical support

particularly important.

**EXCEPTIONS TO
BANK POLICY:**

There are no exceptions to Bank policies.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

As conditions precedent to the first disbursement of the TC loan and the MIF TC operations, the CPMSP, SSF, SV, SP, and ECJ will: (i) designate the officials who will serve as their program coordinators; and (ii) implement the Operating Regulations and agreements between the CPMSP and the SSF, SP, SV, and CNJ.

As a condition precedent to disbursements for establishment of the Deposit Insurance Institution under component (ix), (corresponding to the MIF TC operations) legislation must have been enacted to authorize the creation of this institution.